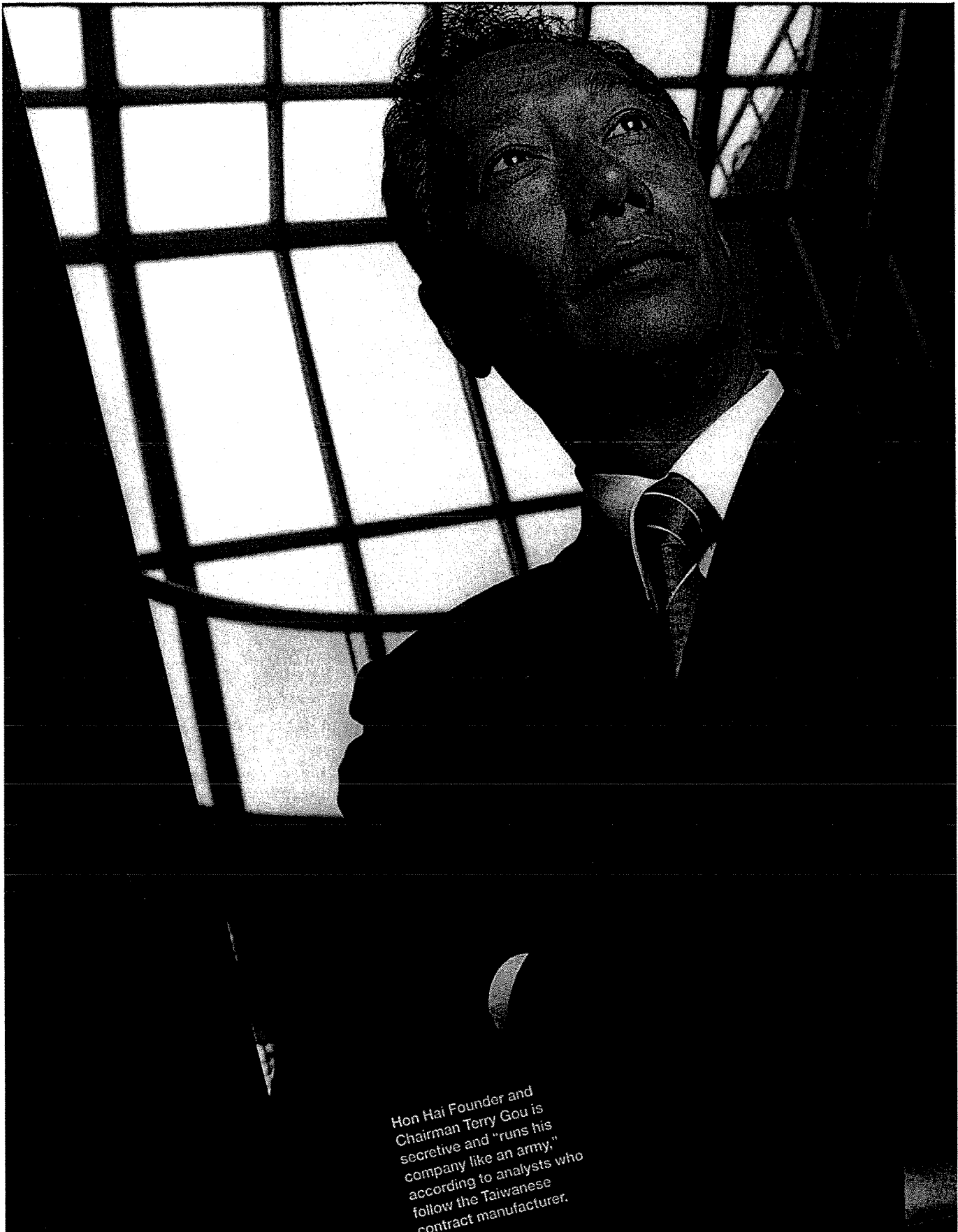


EXHIBIT K



Hon Hai Founder and Chairman Terry Gou is secretive and "runs his company like an army," according to analysts who follow the Taiwanese contract manufacturer.

PROFILE

WHY IS HON HAI SO SHY?

One stealthy Taiwanese company is quietly sprinting to the top of the EMS sector

IF YOU'VE NEVER HEARD OF Hon Hai Precision Industry, well, that's just fine with the company. Founder and Chairman Terry Gou doesn't do industry conference keynotes and rarely talks to the press. Hon Hai has a corporate Web site, but the latest What's New item is nearly two years old. Financial information is released mainly through the Taiwan Stock Exchange Web site, where Hon Hai makes the minimum disclosures required by law.

And yet this once-obscure Taiwanese company has become a major player in the electronic manufacturing services (EMS) industry. Using its only slightly more recognized trade name, Foxconn, it manufactures motherboards for Intel, PCs for Hewlett-Packard, PlayStation consoles for Sony and mobile phone components for Motorola. But these companies don't like to admit it. And Hon Hai doesn't like to brag. (The company declined to talk to ELECTRONIC BUSINESS for this article.)

But those who take the trouble to peek behind this veil of secrecy see eye-popping numbers. Since 2000 much of the rest of the EMS sector has seen stagnant sales and bottom-line red ink. But Hon Hai's sales grew from \$2.9 billion in 2000 to \$4.6 billion in 2001 to \$7.7 billion in 2002. Analysts estimate that sales may have topped \$10 billion in 2003. Profits have grown at least 30 percent in each of those years, and analysts expect at least another double-digit percentage increase when

the company releases results for fiscal 2003, which ended in December.

This growth propelled Hon Hai up the EMS market-share rankings to the No. 3 spot in the third quarter of last year. It remains just a fraction of a step behind Solecron and several paces off industry leader Flextronics.

If the top EMS companies aren't looking over their shoulders, they should be. Hon Hai, which does most of its manufacturing in mainland China, is now pushing beyond the desktop PCs and video game consoles that got it this far. Last fall it went on an acquisition spree that has positioned the company to make cell phones, servers and networking gear. One of its acquisitions gave Hon Hai product design capabilities, potentially filling a gap in its offerings that has kept the company from breaking into more-lucrative notebooks and other original design manufacturing (ODM) work.

But as Hon Hai has grown larger, its footsteps have become heavier. And some say new chal-

PHOTOGRAPH BY DAVID HARTUNG

By Dennis Normile

lenges may trip up the stealthy company. It has no experience in folding successful companies into the Hon Hai mold. It has failed in previous attempts to build up design capabilities. And companies consigning ODM work may shy away from a partner that keeps so many secrets, including any succession plan for the inscrutable Gou.

"We recognize it as a strong competitor," admits Michael Marks, CEO of Flextronics. "It has done an excellent job of manufacturing in China, and it is now expanding as a global player. If it can do that successfully, which is not yet proven, it will be recognized as one of the major players in our industry."

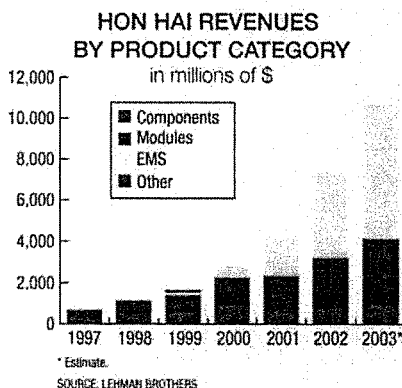
Most analysts already consider Hon Hai a major player. "We have already seen that in PCs Hon Hai can compete with the major contract manufacturers," says Sharon Su, an analyst with UBS Securities in Taipei. "Now it is moving into new competitive spaces."

Hon Hai who?

Hon Hai's unusual approach to business is a reflection of its unusual founder. Unlike the legions of engineers who built up Taiwan's semiconductor and computer industries after gaining advanced degrees and work experience in the United States, Gou graduated from a merchant marine college. Instead of going to sea, he started Hon Hai in 1974 in a garage with 10 employees making plastic parts for black-and-white TVs.

In a prescient move, he began making connectors in 1981 for computers.

Among the products that gave Hon Hai early success and a familiarity with the business were the sockets that allowed add-on memory modules to be snapped into PCs. "The company captured a major share of the connectors market, and that was the beginning of its computer customer



relationship," says Jeff Bloch, vice president of EMS services at iSuppli, a supply chain consultancy. Bloch got to know the company and Gou when he was a purchasing manager for Intel, which used Hon Hai connectors on its PC motherboards.

Hon Hai's sales grew along with the PC boom. And from connectors, the company worked its way up the component chain, Bloch says, to modules, circuit boards and eventually into computer enclosures.

To continue expanding its growing list of products, Hon Hai became part of the vanguard of Taiwanese businesses moving production to China. It opened its first production facilities there in 1993 and now has five indus-

trial parks, housing not only Hon Hai factories but those of suppliers as well. Meanwhile, Hon Hai spread its distribution and logistical network worldwide. By the end of the 1990s, it had R&D centers in the United States and Japan and smaller production facilities in Scotland, Ireland, the Czech Republic and the U.S.

So when PC makers were looking for cheaper outsourcing alternatives in the late 1990s, "Hon Hai was in the right place at the right time with an efficient production model," Bloch says. "Hon Hai is the low-cost leader for building PCs," he adds.

He may have been at the right place, but Gou continues to keep his head down and dodge the spotlight. Now in his mid-50s, Gou is a notorious workaholic, says Paul Tsai, a fund manager who counts Hon Hai among the stocks in his portfolio for International Investment Trust in Taipei. Gou is reportedly hard on subordinates, running his company "like an army," one analyst says. And he keeps his lieutenants in the background, another policy that minimizes outsiders' access to information about the company. "Other members of the management team don't show up in public much," says Tsai. "We are really not familiar with them."

"I think this secrecy is partly due to Chinese culture," says William Fong, an analyst with Primasia Securities in Taipei. But Hon Hai is an extreme example. "Terry Gou is quite conservative about disclosing information," he adds, in what most analysts consider an understatement. The stingy disclosure is partly to keep information out of the hands of competitors, says Fong. Hon Hai has further obscured itself by using Foxconn as a trade name and as the name of most of its overseas subsidiaries.

The secrecy helped keep Hon Hai out of the limelight until it just got too big to miss. Since 1998 Hon Hai has posted sales growth of more than 35 percent each quarter, except the second quarter of 2003, when the SARS crisis disrupted demand for electronics in Asia. That growth made it Taiwan's largest manufacturing company (in terms of sales) in 2001, when it passed

HON HAI PRECISION INDUSTRY CO. LTD. AT-A-GLANCE

Corporate Headquarters: Taipei, Taiwan

Founded: 1974

Web site: www.foxconn.com

Chairman and CEO: Terry Gou

Exchange/Ticker Symbol: Taiwan Stock Exchange/2317

Employees: 87,975 employees as of June 30, 2003

Business: Manufacturing connectors, modules and housings for PCs, consumer electronics and telecommunications equipment, and assembling desktop PCs, electronic games and mobile phone handsets.

Calendar years	2000	2001	2002
Revenue (in millions of \$)	2,932	4,613	7,727
Net income (in millions of \$)	309	392	506
Return on assets (percent)	17.3	16.4	17.3
Return on equity (percent)	26.9	26.8	27.4

New Taiwan dollars converted into U.S. dollars at the January 30, 2004, New York Federal Reserve Bank exchange rate, NT\$33.36 per US\$1

SOURCE: HON HAI, TAIWAN STOCK EXCHANGE, ANALYST REPORTS

Taiwan Semiconductor Manufacturing Corp. (TSMC), the island's quintessential high-tech powerhouse.

Hon Hai became China's largest exporter in 2002, shipping \$4.38 billion worth of goods out of the country, according to the mainland's Ministry of Commerce. Even that understates Hon Hai's true strength in the Middle Kingdom, because sales within China account for about 20 percent of revenues, according to a Lehman Brothers report. And because Hon Hai was focused primarily on PCs and game consoles, it had minimal exposure to the overcapacity in telecommunications that has socked other EMS companies since 2000.

Shy giant

Having grown so big so quickly, the reticent giant now finds itself the subject of increasing scrutiny. "Suddenly at industry conferences, people wanted me to tell them more about Hon Hai," consultant Bloch says.

One thing analysts know is that Hon Hai has the lowest cost structure in the industry. Its advantages start with its extensive network of factories in China, where the company has about 80 percent of its production capacity, according to market research firm Taiwan Ratings. By comparison, Flextronics has about 40 percent and Solectron 27 percent of their capacities in Asia, according to the Lehman report. How much of a cost advantage does this give Hon Hai? A 2002 report from the U.N. Conference on Trade and Development concluded that China's wages are as low as 2 percent of those of the U.S. (though China's lower productivity narrows the gap in unit manufacturing costs).

Hon Hai's control of costs is as fanatical as its control of information, something Lehman analyst Emily Chang realized on a visit to EMS facilities in China last year. The "nice housing and offices" of Flextronics' expats contrasted sharply with the accommodations of Hon Hai's managers. "Even the local chairman's offices had bare concrete floors," she says. "This company is really thrifty."

On top of that, Hon Hai can rely on the 30 percent and higher margins of its

component business to balance the low margins of its assembly work, notes Ben Lee, an analyst at Nomura Securities in Taipei. The bottom line: "Hon Hai can offer quotes 10 percent to 20 percent below those of major competitors."

Hon Hai is also relatively strong in R&D. It now consistently ranks among

consignment to volume production for Acer's new Aspire RC900- and RC500-series PCs, launched last summer, according to Chang. Hon Hai even had a handicap. Travel restrictions attributable to the SARS crisis meant that Acer and Hon Hai engineers had to resolve design and specification issues through

HON HAI'S RECENT ACQUISITIONS				
Company or facility	Business	Date deal was announced	Value of deal	What's in it for Hon Hai
Elmo Oyj	Precision plastic moldings for mobile phone handsets	August 2003	\$76 million	Production facilities, access to Nokia
Motorola factory in Chihuahua, Mexico	Handset manufacturing	October 2003	\$18 million	A mobile handset factory and orders from Motorola
Ambit Microsystems	Manufacturing of routers, modems and networking equipment	November 2003	\$1.1 billion	Customers and product design expertise

SOURCE: NEWS REPORTS, COMPANY WEB SITES

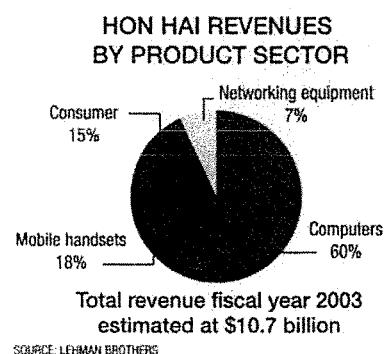
the top patent earners in Taiwan, alongside such research heavyweights as TSMC and United Microelectronics. The Lehman report estimates 2002 R&D spending at \$115 million, or about 1.5 percent of sales. The bulk of the intellectual property is related to connectors, but the company is also winning patents covering antenna, optical and heat sink technologies, among others. Hon Hai's patent position recently took a hit, however. In mid-February it lost a patent infringement

videoconferencing instead of face-to-face meetings.

This combination of manufacturing skills, engineering capabilities and tight-fisted cost controls means that "the U.S. EMS companies are losing market share at the low end to Hon Hai," says Lehman's Chang. Not content with just the low end, Hon Hai wants to move up the chain, beyond PCs. "Gou's intention is to make Hon Hai the number 1 EMS company in the world," says Nomura's Lee.

Few observers doubt that Hon Hai can keep its momentum, at least in the short term. Kevin Kane, an IDC contract manufacturing analyst, sees the EMS sector growing at more than 10 percent annually through at least 2007. "I believe that Foxconn will continue to grow at a strong pace, albeit more slowly as the company becomes a larger entity," he says.

Of course, the competition is not going to roll over. Other EMS companies are now moving to copy Hon Hai's model. Current industry leader Flextronics started out with a diametrically opposite EMS approach, buying all components and just doing assembly, according to Louis Miscioscia, senior vice president for EMS and computer research at Lehman Brothers in New York. But now "Flextronics has expanded to include plastics and enclosures," he says. As a result, Hon Hai



lawsuit brought in the U.S. by FCI, a French connector maker. Damages were expected to run to millions of dollars but had not been decided yet.

Hon Hai also has become one of the industry's fastest manufacturers in terms of time to market, which provides another opportunity to sneak up on rivals. Hon Hai surprised Acer last year by taking just two months to go from

"Hon Hai's customers have been asking for more information, and they haven't been getting it."

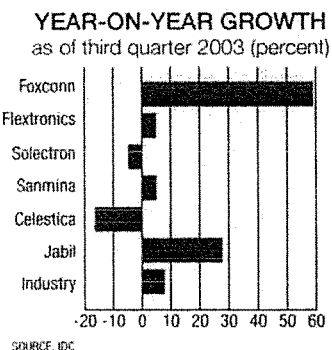
—Pamela Gordon, president, Technology Forecasters

and Flextronics "now look substantially similar," he adds.

Flextronics also is ramping up new facilities in China to take advantage of the low wages. But it will take time to match Hon Hai's China manufacturing infrastructure. The real challenge to Hon Hai on the low end will come from mainland Chinese rivals, which have become more aggressive in bargaining for outsourcing work, says Nomura's Lee. For novice contract manufacturers, he says, one of the easiest targets is desktop PCs. This will keep pressure on margins, no matter how efficient Hon Hai becomes. To maintain profitability, Hon Hai needs to extend into other products, Lee says.

Moving up the value chain

Hon Hai has already seen the writing on those bare Chinese walls. It has been building up business in other sectors, making switches for Cisco Systems;



mobile phone modules for Motorola and Nokia; and mobile handsets for UTStarcom, a mobile phone company headquartered in California that is a market leader in some regions of China. Lehman's Chang estimates that Hon Hai's revenue from handsets and networking equipment increased from 12 percent of total sales in 2002 to about 20 percent last year. But until late last year, Hon Hai hadn't been able to win finished-product manufacturing orders for handsets from any company other than UTStarcom. And, analysts say, it



badly wanted to. So to strengthen its hand in communications, Hon Hai went on an acquisition spree last fall that surprised observers (see chart, page 48).

First, in late August, Hon Hai launched a \$76 million bid to take over Eimo Oyj, a plastics molding company based in Lahti, Finland. Eimo molds precision components for mobile phone and health product makers. The deal gives Hon Hai injection molding facilities in Europe, Asia and the U.S. as well as additional access to Eimo customers, primarily Nokia. Then in October, Hon Hai bought Motorola's mobile handset manufacturing plant in Chihuahua, Mexico, for \$18 million. Under the agreement, Hon Hai will be supplying handsets made at the factory to Motorola.

But those were penny-ante deals compared to what came next. In November, Hon Hai agreed to acquire Ambit Microsystems, a Taiwanese maker of routers, modems and networking equipment, in a stock swap valued at about \$1.1 billion. Ambit, a spin-off of Acer, had 2002 sales of \$745 million and net income of \$60 million.

Analysts expect the Motorola and Eimo deals to allow Hon Hai to move further into the mobile phone handset business, sharpening its competition with Flextronics and Celestica. Hon Hai is even studying the idea of spinning off

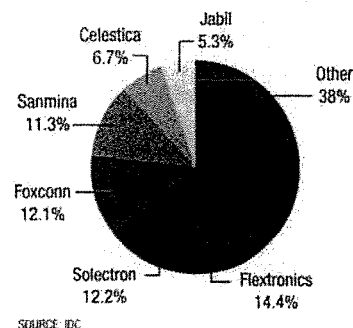
its handset operations and publicly listing the company, presumably to raise cash and strengthen efforts in that sector. Hon Hai's manufacturing prowess could give Ambit's products an edge in competing with offerings from networking ODMs such as Askey Computer and Gemtek Technology, both of Taiwan.

Can it keep Ambit happy?

But Ambit's product design expertise may be the most important aspect of the acquisition. In short, Ambit already is the sort of ODM that Hon Hai aspires to be.

The problem is that "Hon Hai doesn't have any experience in acquiring and managing successful companies," says Nomura's Lee. Hon Hai has bought companies in the past, but they were typically small firms with problems Hon Hai solved by replacing management. Ambit, already successful and running smoothly, will have to be handled differently. Hon Hai will have to keep Ambit's design team happy and intact. And here, its track record is pretty dismal, which can be seen in Hon Hai's failure to crack the notebook computer business. Taiwanese ODM companies

EMS MARKET SHARES
as of third quarter 2003



such as Quanta Computer and Compal Electronics dominate the notebook sector, because they offer OEM customers complete packages, including snazzy designs. Hon Hai wants to expand into design for several reasons, say analysts. Margins are better than the 10 percent or less that desktops earn. Well-designed

notebooks simply command more respect in the industry. And making notebooks would give Hon Hai a one-up on Flextronics, which has also been building up its ODM work but doesn't have any customers for notebooks, according to Lehman Brothers' Miscioscia.

Hon Hai makes notebook housings and supplies connectors and components to the major notebook makers. And in 2002 Hon Hai and Gou, using his own money, helped finance a startup to make TFT-LCD panels not only for notebooks but also for desktop displays and LCD TVs. But so far Hon Hai has been unable to win orders for complete notebook products, because of its weak design skills, Chang says. And its attempts to develop those skills have so far failed. To help it break into the market, Hon Hai recruited Bing Feng, a design wiz formerly with Taiwan's Elite-

group Computer Systems, in early 2002, according to Chang. But Feng abruptly quit a year later, for reasons never made clear. Hon Hai subsequently axed the

ing product designers. Top Ambit executives have agreed to stay on, but the commitment may not run through the ranks. "We're already hearing noises about Ambit engineers considering jumping ship," Chang says.

Meanwhile, Hon Hai may be trying to slip into the notebook market through a back door. The company is rumored to have bought a minority stake in Uniwill Computer, a Taiwanese notebook maker, according to Nomura's Lee. "The company denies it," he says, "but Hon Hai always denies such news."

The company's penchant for secrecy may be another reason it is having trouble breaking into ODM work. U.S. EMS companies share "excruciating levels of cost details" with their customers, says Pamela Gordon, president of Technology Forecasters, a U.S. electronics manufacturing consulting firm. "Hon Hai's customers have been asking for more information, and they haven't been getting it."

The company shows no signs of changing. News of Hon Hai's recent acquisitions all came from its targets. Eimo, Motorola and Ambit all issued press releases, and Eimo and Ambit followed up with management letters to shareholders, explaining the details and benefits of the deal. None of the disclosed information originated from Hon Hai.

A final issue for Hon Hai's long-term prospects is the lack of a deep management team. With Gou keeping the rest of Hon Hai's managers in hiding, analysts, investors and potential customers rightfully wonder what would happen without the industrious yet taciturn founder. "We can't see anyone in management who could take over if Terry Gou suddenly died in a plane crash," Lehman's Chang says.

Do you think tougher disclosure rules should be adopted in Taiwan? Why or why not? Send your comments to: feedback@eb.mag.com.

Dennis Normile (dnormile@gol.com) is a writer living in Tokyo.

HON HAI'S CUSTOMERS AND COMPETITORS

Product	Main customers	Key competitors
Computer connectors	Intel and various PC OEMs	AMP-Tyco, Molex, Hirose Electric
Motherboards	Dell, HP, Intel, Acer, Apple, Sony	Tier-1 motherboard makers, U.S. EMS companies
Bare-bones computers	Dell, HP, Intel, Acer, Apple, Sony	Tier-1 motherboard makers, U.S. EMS companies
System assembly	HP, Acer, Apple	Lite-On, Mitac, First International Computer (FIC), U.S. EMS companies
Notebook casings	Sony	Asustek, Quanta, Compal, Inventec
Mobile handsets and modules	UTStarcom, Nokia, Motorola	Elcoteq, Eastcom, BenQ, Compal, Flextronics
Networking equipment	Cisco	Accton, D-Link, Zyxel, U.S. EMS companies
PlayStation 2	Sony	Asustek, Mitsumi, Solectron, Flextronics
GameCube casing	Nintendo	Hosiden

SOURCE: LEHMAN BROTHERS

entire design team that Feng had assembled. Meanwhile, the LCD venture, Innolux Display, will start production later this year.

Chang suspects that the problem is Hon Hai's secretive, military culture, which doesn't suit proud and freewheel-

Who wants to know?

HON HAI PRECISION INDUSTRY'S arrival in the top ranks of EMS providers took the industry by surprise because the company is so successful at keeping its secrets.

Its public antirelations efforts start with its own investors. *Asiamoney* magazine has tapped Hon Hai as having "the least impressive investor relations" among Taiwanese companies for three years running. The company, which went public in 1991, publishes an annual report, but only in Chinese. Non-Chinese speakers have to refer to the English information on the Taiwan Stock Exchange, where Hon Hai posts the minimum disclosures required. Consolidated results are reported only after the close of each fiscal year. And there are no breakdowns of sales by region or product category.

One analyst who did not want to be identified says that the paucity of information available makes it "almost impossible to build an analytical model" to track and project the company's performance.

It's no easier for journalists. Hon Hai Chairman Terry Gou grants only one or two interviews a year, and no other executives are authorized to speak for the company, says Conrad Huang, a Hon Hai spokesman. Hon Hai never directly refused to make an executive available for an interview with *ELECTRONIC BUSINESS*, but Huang very politely—and repeatedly over the course of two months—explained that the request was pending with higher-ups. Huang insists that the company is not deliberately trying to keep out of the news, but most business publications hesitate to run a story about a company without any management interviews.

The same goes for industry surveys. For the last several years, Hon Hai has refused to cooperate with Reed Business Research for *EB*'s annual list of top contract manufacturers. As a result, RBR does not include Hon Hai on the list.—D.N.

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